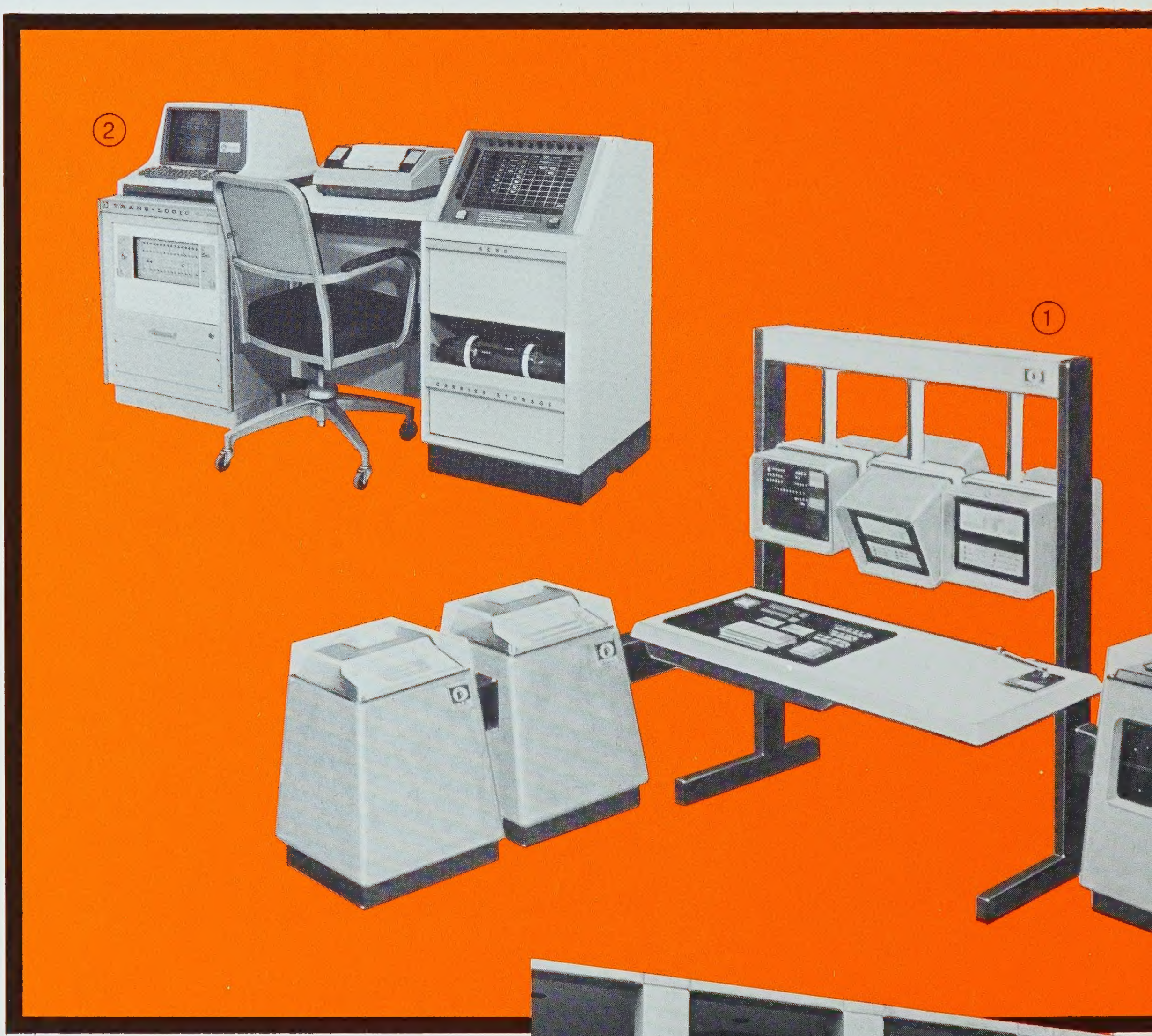
POWERS

POWERS REGULATOR COMPANY / ANNUAL REPORT YEAR ENDED MARCH 31, 1974

Controlling the Indoor Environment

POWERS
controls
a building's
basic functions,
including
safety and
environment.

Virtually all of the equipment of a modern building is controlled through Powers automation. Pictured, #1, is a one-operator computer-programmed central control station. Buildings with a Powers pneumatic tube distribution system also will have a second computerized central control unit, Picture #2, to govern high speed delivery of supplies and messages, particularly adaptable to the new medical centers.



Maintenance service has become a growing element in the Company's sales.


POWERS
REGULATOR CO.
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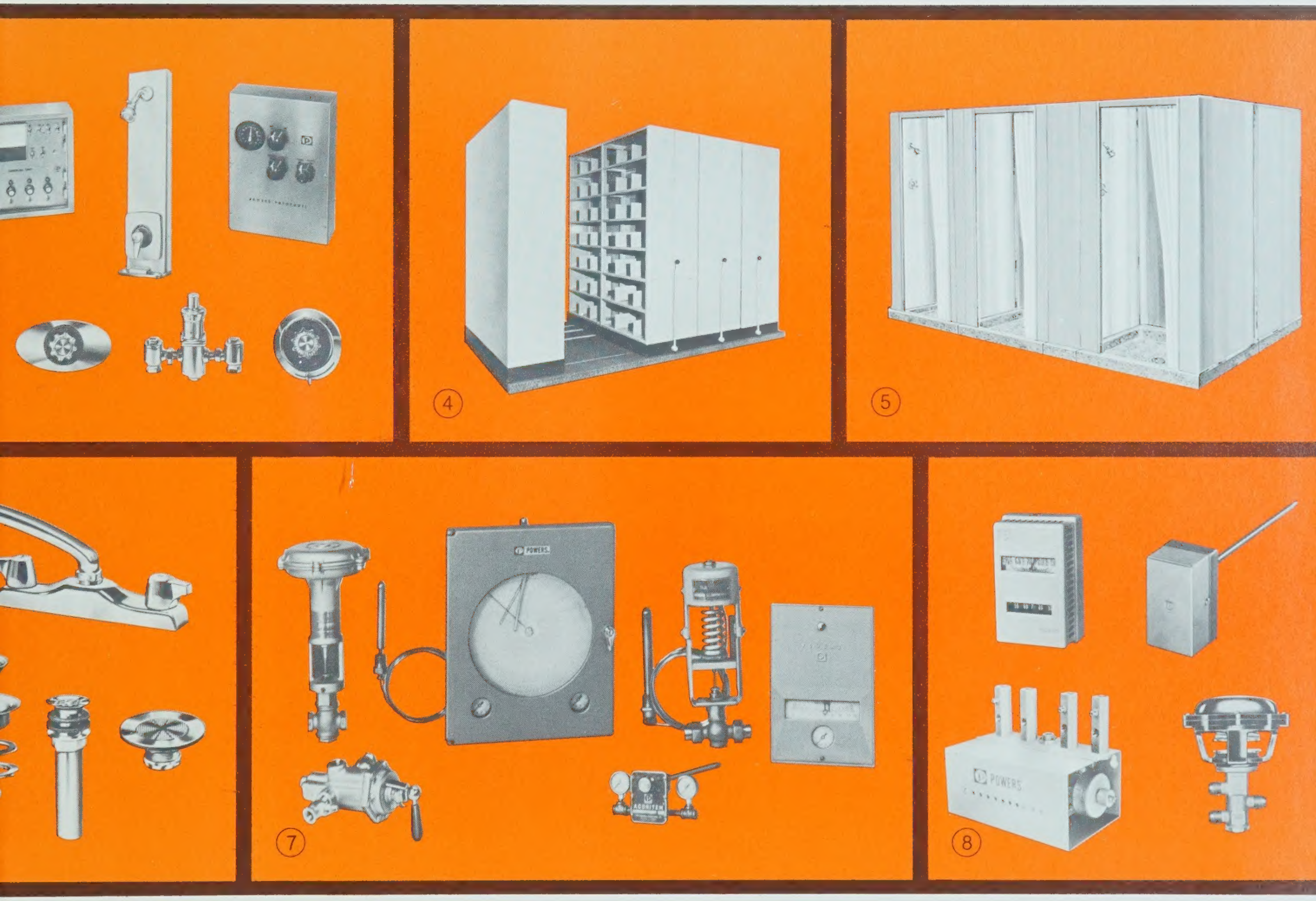
Taming the Great Indoors: Why POWERS has become a Leading Specialist in Single-Source Systems

While the world's environmentalists strive to improve conditions in the Earth's atmosphere, an equally challenging effort is quietly taking place today to upgrade the quality of life and working efficiency *indoors*. And perhaps few companies are contributing more technological answers to the problem—or have a bigger stake in their application—than does Powers.

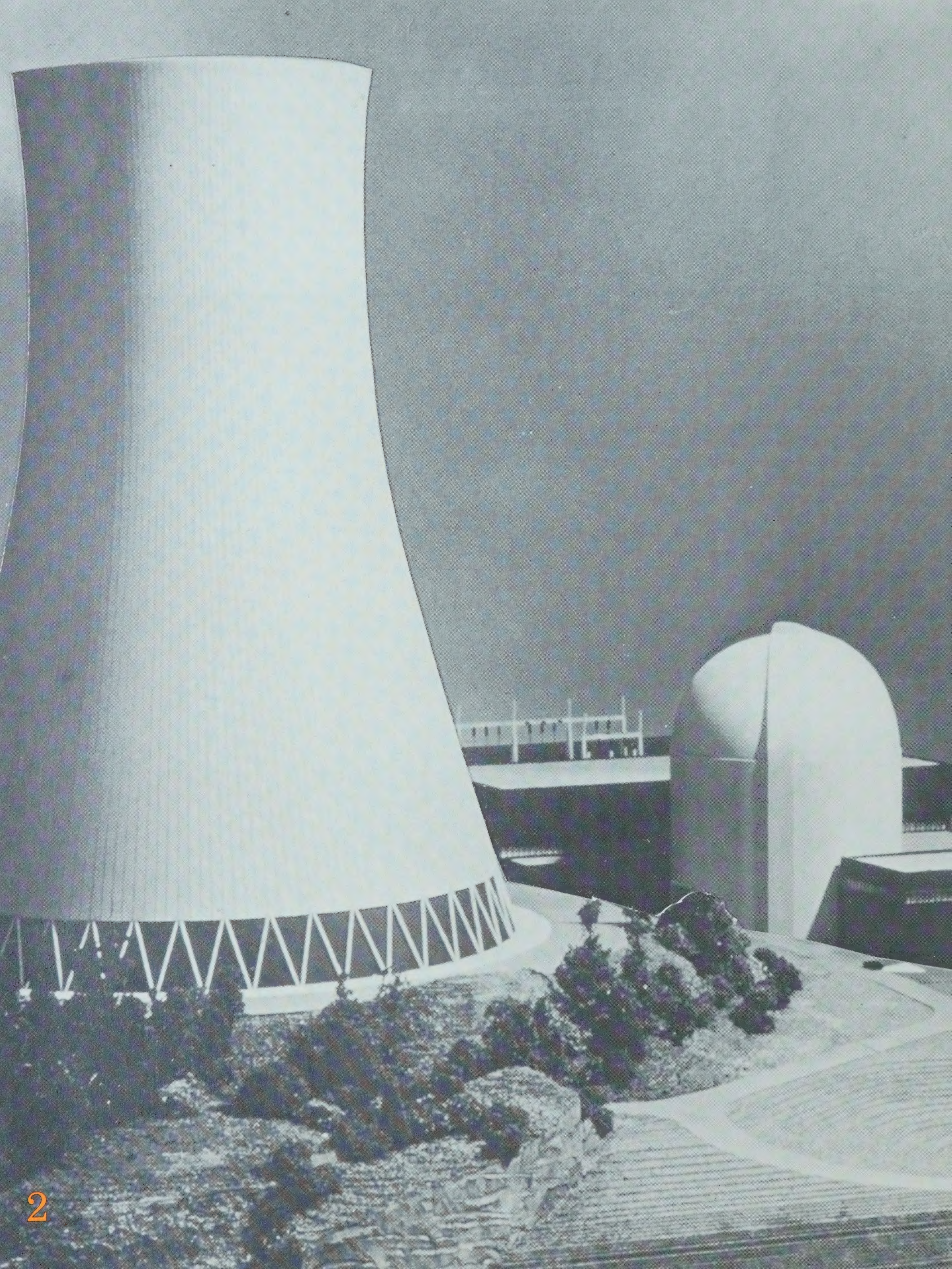
Vastly broadening our traditional role in temperature control, Powers in the past few years has invested several million dollars in development of innovative ideas that provide single-source computerized control of most functions of a modern building: temperature . . . humidity . . . fire detection . . . communications . . . and security. (See inside gatefold.) Today, Powers is recognized as a foremost specialist at design, installation and servicing of these systems for commercial structures, hospitals and other buildings, nuclear and other power stations.

This position is complemented by our related roles as one of the largest producers of pneumatic tube systems for materials and information distribution, water and air flow control systems, and as a recognized leader in plumbing fixtures.

By continuing to focus our investment and attention on further challenges in Taming the Great Indoors, our skilled force of about 1,300 engineers and technicians at nearly 90 Powers bases have the clear potential to achieve growth for our company over the coming ten years, that may challenge the substantial growth of the last decade.



In a POWERS-equipped building, literally hundreds of Powers controls and other products are installed. These include: #3, tempered water controls. #4, mobile storage for materials. #5, shower enclosures. #6, lavatory products. #7, building service controls. #8, environmental controls.



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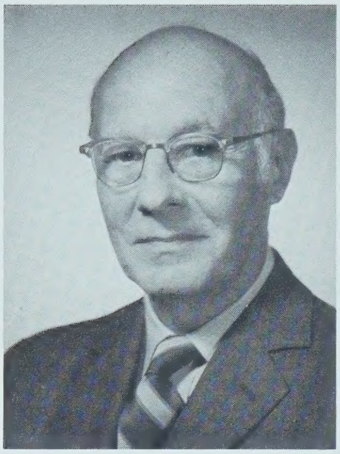
The Trojan Nuclear Power Plant of Portland General Electric Co., one of the growing number of nuclear generating stations served by Powers' environmental control equipment.

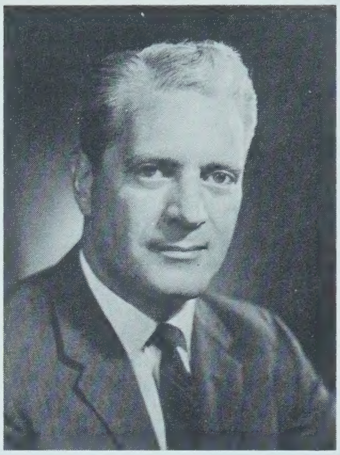
Comparative Highlights

YEAR ENDING MARCH 31	1974	1973
Net Sales	**$78,403,000**	$63,695,000
Income before Income Taxes	**$ 2,862,000**	$ 4,472,000
Net Income	**$ 1,375,000**	$ 2,160,000
Net Income per Common Share	**$.89**	$1.45
Average Common Shares Outstanding	**1,491,759**	1,457,257
Cash Dividends	**$ 1,091,000**	$ 1,066,000
Dividends per Common Share	**$.70**	$.70
Working Capital	**$27,724,000**	$25,198,000
Ratio of Current Assets to Current Liabilities	**2.9 to 1**	5.8 to 1
Shareholders' Equity	**$35,942,000**	$35,012,000
Shareholders' Equity per Common Share	**$23.03**	$23.43

To Our Stockholders:



H. C. Mueller
Chairman



M. S. Ganskow
President

In the fiscal year ended March 31, 1974, Powers took some of the most significant steps in its 83-year history, virtually none of which have yet been reflected in tangible contributions to its operating statement. The transition has positioned Powers for substantial growth over the coming years, an accelerated return to our previous level of earnings, and it provides the thrust to well exceed that level. The highlights:

- Development of an improved automated building control system representing the most advanced state of technology in the industry.
- Acquisition of the Fiat operations of American Cyanamid Company. Fiat is recognized as a leader in the bathroom fixtures field. The combination of Fiat and our Specialty Products Division provides a measurable degree of synergy as a major marketing and manufacturing force in the water control product markets.
- The exceptionally successful acceptance of Fiat's modular acrylic tub-shower line, which is an important innovation in bathroom systems. The outlook for further growth is excellent.
- The expansion of Powers production capacity by approximately 150%, including the Fiat acquisition, the purchase of a new manufacturing facility devoted to modular tub-shower production, and the acquisition of Powers Metal Products, Inc.
- The expenditure of another $2 million in product development and application work designed to sustain Powers technological leadership. Advances in these areas were translated into new orders that raised total year-end backlogs to an all time high.
- The development and initiation of the most comprehensive long-range plans in Powers' history.

These steps have profoundly changed Powers fundamental position, but at some sacrifice of current profitability. Had they been deferred, Powers in the past fiscal year could have shown higher earnings, but by doing so, our long term earnings potential would have been blunted. Accordingly, despite a strong increase in sales, net income for the past fiscal year declined considerably from the prior year level. Sales for the year rose to a record $78,403,000 from $63,695,000 in 1973, an increase of $14,708,000 or 23%. Nearly one-half of the increase came from internal expansion. The balance came from acquired companies.

EARNINGS FACTORS

Net income for the year declined to $1,375,000 or $.89 per share, as compared with $2,160,000 or $1.45 per share in the year earlier. In addition to our investments in the future, earnings were affected by some unfortunate internal and external factors. A major one was the impact of a six-week strike at our main plant in Skokie, Illinois. Another is the result of installing some of the low priced building control systems work sold in the two earlier fiscal years of 1972 and 1973. Fortunately, the incoming orders during fiscal 1974 just ended indicate modestly higher margins, but considering the record bookings and backlog acquired during this extended period of poor prices, the rate of rise in our earnings will be somewhat impaired in the months ahead.

The Fiat acquisition also depressed our earnings in the last two quarters of fiscal 1974 due to the impact of a severe shortage of resins. Although their output of resin-based products declined as much as 44% during this period of shortage, Fiat still provided a modest operating profit. However, after considering the cost of borrowed funds needed to make the acquisition, earnings per share were reduced $.03. Since the supply of resin has improved in recent months, we expect Fiat will make a contribution to greater profitability in the current year.

570 SYSTEM IN FOREFRONT

In our Building Control Systems, important advancements were made at our Northbrook, Illinois research laboratories that placed our 570 System in the forefront, we believe, of automated concepts for the monitoring and control of virtually every function of a modern commercial, institutional, or industrial building.

At our TRANSITUBE Division, our research personnel successfully completed an extensive product development—the 4″ Trans-Logic System which will enable Powers to take maximum advantage of the growth opportunities in the pneumatic tube system market. The new system is modular, readily expandable and offers computer control of the more complex units.

In October 1973, Powers purchased the Fiat operations of American Cyanamid for about $8,300,000 in cash. Because of the strong commonality of markets and distribution channels utilized by Fiat and our Specialty Products Division, there was an excellent opportunity to combine the two marketing organizations. This restructuring has taken place.

In October, we acquired the Denver operations of the Dahlstrom Corporation. This high quality metal fabrication operation is now a subsidiary known as Powers Metal Products Company.

KEY MANAGEMENT ADDITIONS

Some of the most timely and vital strengthening at Powers in the past year has been among our human resources. One key addition to management has been M. E. Prichard, who joined Powers in July to take charge of all line operations in the U.S. as a Group Vice President and become a member of our Board of Directors. Earlier in his career he had been chief operating officer of C. P. Clare and Company and a group vice president of General Instrument Company.

Another addition is Donald N. Stitt, who is a Corporate Vice President in charge of the Fiat operations and our plumbing and industrial process control product lines. His responsibilities encompass what we now refer to as the Powers/Fiat Division. He was a vice president of Rockwell Manufacturing Company, where his responsibilities included division management as well as corporate planning and development.

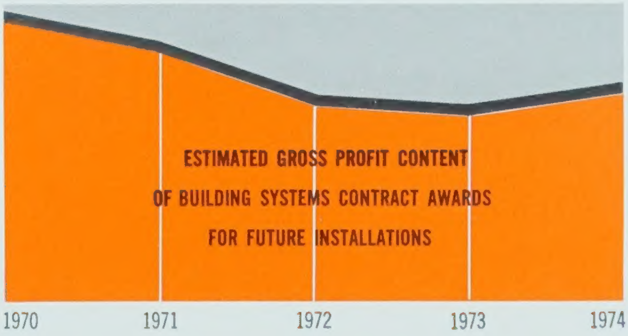
Recognizing the complexities in our major market, non-residential building control systems, we created two divisions to meet current and anticipated demands, and promoted two highly qualified executives to division manager positions. Robert G. Louer, a 23-year veteran of Powers, is a Vice President and Division Manager in charge of the Control Systems field operations. Wayne L. Norin, also a 23-year employee, is a Vice President and Division Manager responsible for product development and technical support services to the Control Systems network.

At our Board of Directors level, we regret the resignation of Edward McCormick Blair due to his increasing involvement in other activities. We were fortunate to obtain the services of John C. Stetson, president of A.B. Dick Company, as a Powers Director.

During the latter months of the fiscal year we successfully negotiated four three-year labor contracts without work stoppages. The plants involved are located in Plainview, New York; Cincinnati, Ohio; Denver, Colorado; and Orillia, Ontario, Canada. These contracts, along with the three-year settlement in Skokie, Illinois in July, 1973 give us reasonable assurance of continued production over the next two years.

EARNINGS OUTLOOK

As we look toward the new fiscal year and beyond, we must express caution since Powers' earnings recovery will be gradual in the near term. The single most critical factor affecting our gross profits — the pricing conditions related to our building control systems backlog — will have an adverse carryover effect for a while longer. However, it is vital to note that the pricing climate was healthier in fiscal 1974, as



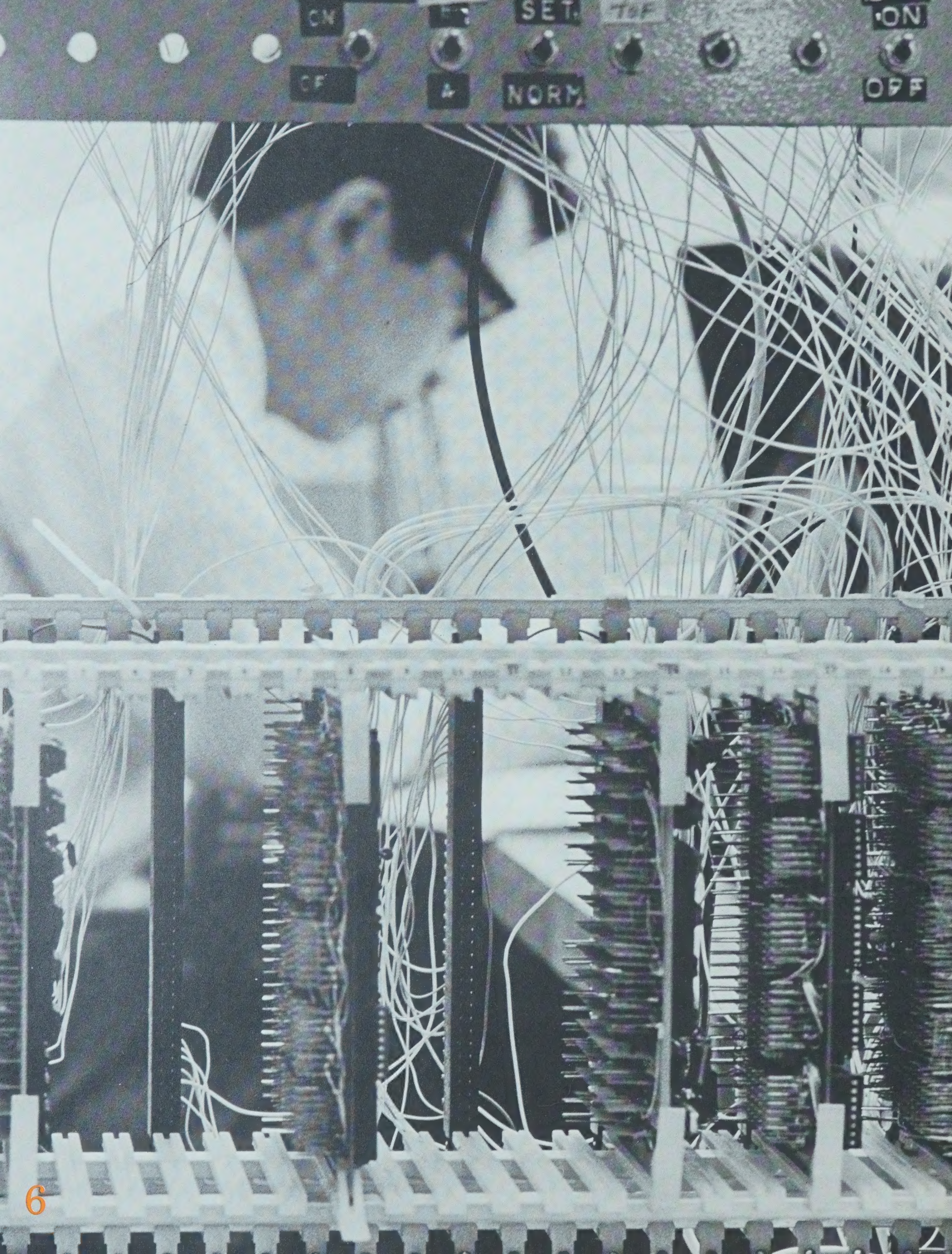
indicated in the chart above, and our current order bookings are not only at a record pace, but at a more favorable level of gross margin. This betterment, coupled with the emerging effects of our corporate restructuring, overhead reduction programs, and the acquisitions in fiscal 1974, convinces us — as the earlier segments of our backlog are worked off — that a steadily brightening profit picture at Powers will be clearly evident.

H. C. Mueller
Chairman

M. S. Ganskow
President

Skokie, Illinois

June 24, 1974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Developing Tomorrow's Controls

The ability to stay in the forefront of the industry we serve has come from an 83-year-long emphasis on advance engineering of the products of tomorrow. Product engineering became the framework around which founder William Penn Powers developed the series of early thermostats and controls that made the company a frontrunner before the Twentieth Century began.

Over the years, a vast two-way network of informational flow has been established. It stretches from Powers' laboratory operations in the main plant in Skokie, Illinois, from Powers' electronics development and application center in Northbrook, Illinois, and from the Denver and Cincinnati plants. The network reaches to Powers' installation teams in the field, to Powers' servicemen familiar with day-to-day performance, and to cross-sections of the construction industry. These include the major architectural design staffs and the builders of buildings, nuclear plants, hospitals and other installations in which Powers systems are integrated. So, we know how the industry's products are performing today . . . and are preparing for what's needed tomorrow.

It remains then for the skill of Powers' more than 125 development engineers and technicians to keep us in the forefront. We have supported them with expenditures averaging two million dollars annually in recent years. Their drawing boards and pilot designs have taken Powers into a computerized, electronics application of controls that enable us to supply one-source automation to the inner workings of a building.

Fourteen years ago Powers Regulator entered the manufacture of pneumatic tube distribution systems. We gave that division, now headquartered in Denver, an injection of research, leading to an improved family of products. Increasingly today there is new reliance among hospitals, banks, and many other outlets upon a delivery concept that some had thought would disappear with the family department store.


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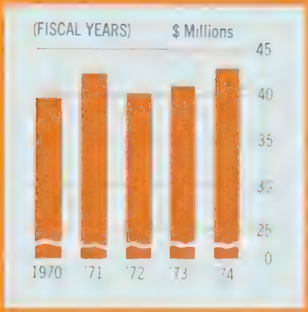
In the Market for Building Systems

EXECUTED SALES



Control Systems:

The Market . . .

Building-wide systems that govern the flows of air, water, steam, sound control and electrical pulse of a building are varied in their complexity. Some may control the temperature and humidity, while other plants or buildings may be engineered for the full sweep of instrumentation. Essentially the market is nonresidential construction, plus larger multi-family buildings.

As a result, this area of Powers activity is less concerned economically with the current interruption in the growth of the small home market. Half-way through calendar 1974, new industrial construction is considered well on the road to achieving the $8 billion government estimate, up $2 billion or 33% from 1973. And commercial construction apparently will complete the year about $1 billion higher than the $15 billion spent in 1973. We also serve large residential complexes.

Within these totals is the trend toward the approximately $3.5 billion annually in capital spending by health institutions predicted by the government in the period through 1980. Nuclear power plants, another user of Powers' systems, are currently being increased in number. The 1974 total of 18 new plants are to be the forerunners of 188 nuclear stations within a 15-year span. A total of 285 new fossil or non-nuclear plants is planned by the U.S. utility industry in the same period.

The company's backlog of contracts to build and install its building systems (control systems and distribution systems combined) has risen to an unprecedented high level. Gains are credited to the market's approval of Powers historical reliability and innovative recent developments that meet customer needs.

Introduction in past months of Powers' System 570 that is modular in concept gives the company access to a still broader market. Our field engineers can more readily adapt Powers' hardware to individual building requirements. Powers also offers a variety of accompanying software to program efficiencies in building operations that reduce energy consumption, protect lives through fire alarms and physical security and provide the proper maintenance and thus longer life of equipment.

We now equip our customers with on-line, thoroughly checked, computer-based automation within months of clearance of an order. Powers building systems' executed work (control systems and distribution systems combined) in fiscal 1974 represented 55% of the company's total volume.

In fiscal 1974, we added six foreign distributors, bringing our total to 43. Our Export Department has doubled its rate of incoming orders, and we are in negotiation for more involvement in the European market.

Distribution Systems:

The Market . . .

Efficiency, time-savings and economy have served to bring pneumatic tube installations into the automation family. Many facilities that have a need to transport instructions, money or a wide variety of other items are an outlet for a modernized Transitube® dispatch system.

The market covers hospitals, banks, as well as many commercial and industrial buildings. With the government's data indicating a 12% uptrend in dollar volume of non-residential awards in 1974 and continued expansion scheduled through 1980, it follows that pneumatic tube systems are in line for a share of this growth.

The hospital or other establishment that wants a single-source system of controls often is found planning a Transitube distribution system, also with automated controls and with a computer control center for complex installations.

Approximately three-fifths of Powers' distribution systems' business and apparently about the same for the entire pneumatic tube industry, centers on the health care market, principally new hospitals. McGraw-Hill is forecasting a 14% rise in the volume of health care construction in 1974. Powers has developed a Value Added Analysis that clearly demonstrates to most prospective customers the cost savings available to them by the installation of its pneumatic tube systems.

The Powers Competitive Position . . .

Based on its own observations of customer purchases and of new product development, Powers estimates that its expenditures for engineering and for product development have been the most productive in the industry devoted to pneumatic tube systems. The company is also confident that it has become one of the industry leaders in volume. We have the most extensive field staff and offer the most advanced applications.

A significant forward thrust in technology, our new 4-inch Trans-Logic® Systems, grew out of two and one-half years of development work by Powers. This equipment with a central computer control option has just become operational and represents the most extensive development project ever undertaken by Transitube® or its predecessors. We already have under way the development of a larger 6-inch system. Four hospitals have selected the Big Six at this early stage.

Another new product about to be introduced is the Nurserver® for storage of clean and soiled hospital patient room supplies. This product is endorsed by our hospital consultants as a fundamental of team nursing service.

Our backlog in the Transitube® sector is about 10% higher than a year ago.

In the Market for Hydro-Hygenic Products

Powers-Fiat:

The Market...

The purchase from American Cyanamid of its Fiat operation advanced Powers into a related market within the Hydro-Hygenic field. Powers-Fiat's basic product lines are showers, shower floors, tub-shower modular units, service sinks, and commercial and institutional toilet partitions.

Plastic tub-shower and shower units were catapulted into popularity by almost immediate market acceptance. They are stylishly modern, more easily-installed and their one-piece formation eliminates difficult-to-clean and leaky crevices.

Four major markets are served by the Fiat product lines: residential new construction, residential remodeling, commercial/institutional construction, and commercial/institutional remodeling. The remodeling markets have been found to be countercyclical to the new construction markets. That relationship has stabilized the pattern of orders to Powers, smoothing the cyclical swings of new construction.

The industry foresees a total market for tubs and showers in calendar 1974 in the area of 3.5 million units. Of these, approximately 1 million will be plastic units—a segment served by Powers. This plastic tub-shower market has been growing at about a 30% annual rate, while the total market for tubs and showers is showing a 3-5% growth. Plastic is expected to expand from its present 25% of the market to about 70% of the total by 1980.

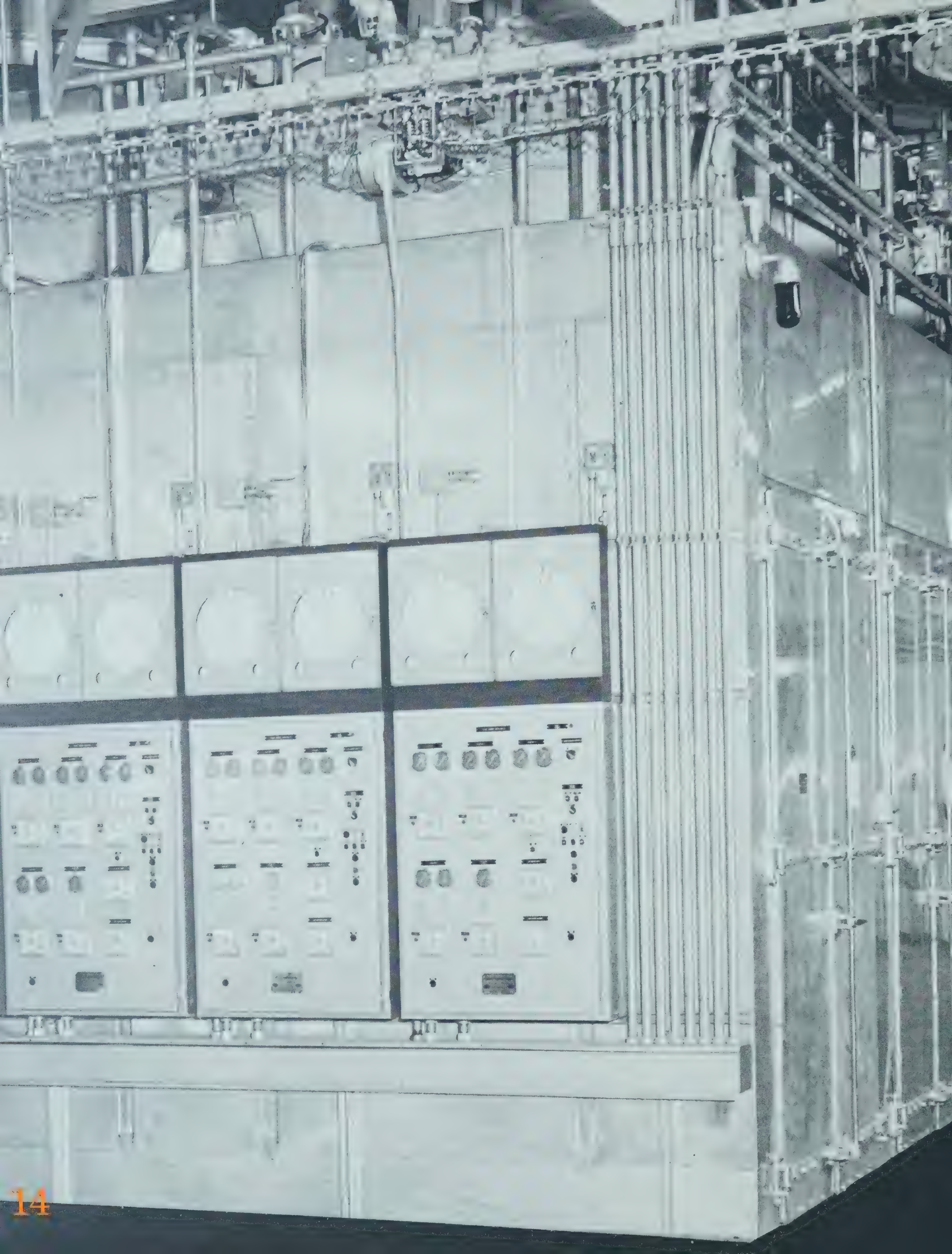
The Powers Competitive Position...

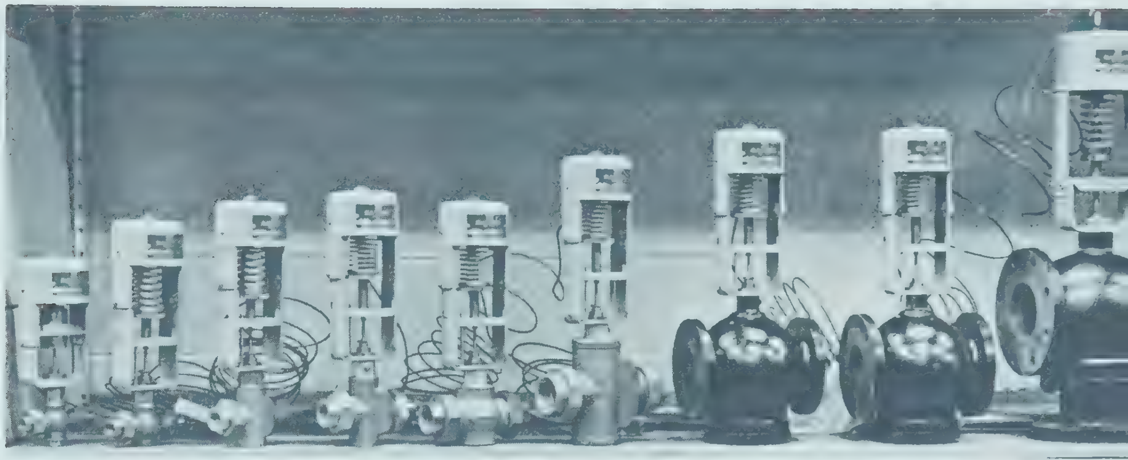
Fiat's expertise in plastics justified a followup acquisition . . . that of a new manufacturing plant of 58,000 square feet in Monroe, Ohio, for production of modular acrylic tub/shower units. On 8.65 acres of industrial property, this plant is readily expandable.

The new Powers-Fiat Division already had plants in Plainview, N.Y., the 134,000-square foot main facility; in Albany, Georgia, 17,000 square feet; in City of Industry, California, 62,000 square feet, and Orillia, Ontario, 107,000 square feet. These five production centers are the source of sales at an annual rate of $14 million. Only the portion of their sales for the period from October 1, 1973 to March 31, 1974 was applicable to Powers' results for the last fiscal year.

For all producers in the field, material shortages have been coupled with unstable prices, including previously "unheard of" price increases. Powers-Fiat is in the forefront of efforts to develop new formulas to offset critical material shortages. In this climate, the company has been able to sell whatever it could produce. It began the current year with a record backlog, strengthened further by an excess of new orders over shipments.

Hydro-hygenic products account for 26% of the company's total executed sales.





Other Hydro-Hygenic Products:

The Market . . .

Equally important to Powers-Fiat are three other lines within Hydro-Hygenics. Specifically, the areas served are:

1. **Commercial**—Products for mixing and controlling water for sanitary purposes. The line also includes temperature control devices for photographic and X-ray applications. Outlets include wholesalers, plumbing original equipment manufacturers and photographic supply distributors.

2. **Garvin**—The Garvin product line consists of a patented method (Hydromold®) of forming faucet spouts from brass tubing, strainers and drains for various sink applications, along with lavatory and kitchen faucets. Marketing is through plumbing wholesalers, plumbing equipment manufacturers, and repackagers.

3. **Industrial**—A line of products sold to original equipment manufacturers, industrial distributors, and large volume users for the control of basic processes. Individual items are considered as basic for regulator or controller type applications.

Within the commercial area above, bath and shower automatic mixing controls are the second major product line of Powers-Fiat Division. Powers is one of the leading firms in this market. As with the Fiat line of products, the replacement-remodeling market is a major source of sales in addition to both new residential and new institutional construction.

The Powers Competitive Position . . .

In recognition of the synergy potentials, Powers attained both efficiency and economy through combining the marketing organization acquired in October 1973 with the existing Hydro-Hygenics sales network. One marketing director was assigned overall responsibility, and sales regions were realigned. Regional managers became responsible for the combined lines within their territories.

The recognized quality of Powers products and flow of new products is the source of our acceptance in the competitive wholesale market, the principal area for sales.

Powers' constant temperature, water-mixing valves for showers are marketed under the trade name Hydroguard®. Their concept of safety, comfort and energy conservation have been recognized by the trade through a buildup of orders, sustaining Powers' market leadership insofar as this particular control is concerned.

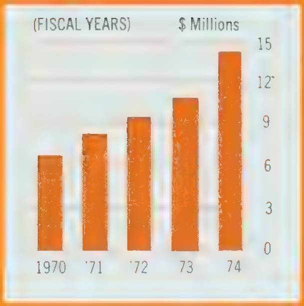
In mid-May 1974, we introduced a stylized dial plate, with the most easily identifiable graphics in the industry. By November, we expect to introduce a new tub-shower mixer that should increase our residential market penetration. Garvin has attracted attention with its Hydromold®, a unique forming process with the attributes of cast brass faucet spouts, produced at lower cost and with less consumption of critical metals.

The division has charted product development expenditures that by 1977 will increase the outlay to a 60% higher level than in 1974. By 1977 it is expected that a fifth of that year's sales will come from products as yet undeveloped.


OWERS CONTROL

In the Market for Systems Servicing

EXECUTED SALES



The Powers Position

One of the most rewarding investments made by Powers has been in the addition and training of our service personnel. A glance at the five-year growth of what was once an inconsequential phase of the business shows a significant current operation . . . and one destined to provide Powers with profitable revenue growth in the future. In the period since 1969, revenues from servicing have more than doubled. They reached $14.5 million in the past year.

Advent of central controls governing the full or partial operation of buildings brought with them new needs. Contracts for preventive maintenance soon proved their worth. Electronic surveillance of a building's operations serves to reduce wear and tear, but when a need for service is detected it's preferable to call in the factory-trained technician, or a Powers-trained team of them if required. As a result, the installation of a computerized system in a new building generally leads to a servicing arrangement. We are further expanding our service capabilities to include equipment installed by others as well as Powers products.

A year ago, we covered servicing in one paragraph as follows: "Our system service business continued to grow at a very satisfactory rate both in volume and in profitability. We are taking steps to expand the scope of our service capabilities which will increase our market and further accelerate our growth in this business."

The steps we took were worthwhile, for servicing sales were increased 33% in fiscal 1974 over the prior year. And servicing emerged as a 19% segment of the year's business.

Powers service technicians are stationed in most of its field centers, so that we have blanketed much of the United States and Canada as well . . . with Powers service. Its service crews offer both mechanical and electronics capabilities. Emphasis has been shifting from an emergency role to programs in which "on call" service is provided along with routine maintenance and preventive maintenance activity. The resulting stability of service income has been most helpful in permanently staffing the service offices.

Consolidated Balance Sheets

Assets

	MARCH 31 1974	1973
CURRENT ASSETS		
Cash	$ 1,197,000	$ 543,000
Marketable Securities, at cost which approximates market	209,000	1,312,000
Receivables, less reserves of $675,000 in 1974 and $498,000 in 1973	23,676,000	17,271,000
Inventories	17,325,000	11,351,000
Total Current Assets	$ 42,407,000	$ 30,477,000
OTHER ASSETS		
Product Development and Tooling Costs	$ 679,000	$ 555,000
Cash Value of Life Insurance ($763,000 Face Value)	316,000	289,000
Prepaid Expenses	327,000	285,000
Total Other Assets	$ 1,322,000	$ 1,129,000
PROPERTY AND EQUIPMENT, at cost		
Land	$ 3,518,000	$ 1,555,000
Buildings	11,375,000	7,398,000
Machinery and Equipment	9,075,000	5,274,000
	$ 23,968,000	$ 14,227,000
Less Accumulated Depreciation	6,472,000	5,542,000
Property and Equipment, Net	$ 17,496,000	$ 8,685,000
	$ 61,225,000	$ 40,291,000

The accompanying summary of accounting practices and no

Liabilities and Shareholders' Equity

	MARCH 31 1974	1973
CURRENT LIABILITIES		
Bank Loans (Note 2)	$ 3,200,000	$ —
Accounts Payable	6,256,000	2,816,000
Accrued Liabilities	2,237,000	1,312,000
Federal and Canadian Income Taxes	2,990,000	1,151,000
Total Current Liabilities	$ 14,683,000	$ 5,279,000
TERM BANK LOAN (Note 2)	$ 10,600,000	$ —
SHAREHOLDERS' EQUITY (Notes 2 and 3)		
Preferred Stock, no par value:		
Series A, $3 convertible:		
Stated value $50 per share;		
Authorized and outstanding 15,000 shares	$ 750,000	$ 750,000
Common Stock, $5 par value:		
Authorized 5,000,000 shares;		
Issued 1,677,196 shares in 1974 and 1,608,264 shares in 1973	8,386,000	8,041,000
Additional Capital	840,000	502,000
Retained Earnings	28,726,000	28,442,000
	$ 38,702,000	$ 37,735,000
Less—Common Stock Held in Treasury, at cost (149,007 shares in 1974 and 146,007 shares in 1973)	2,760,000	2,723,000
Total Shareholders' Equity	$ 35,942,000	$ 35,012,000
	$ 61,225,000	$ 40,291,000

...olidated financial statements are an integral part of these balance sheets.

Consolidated Statements of Income, Retained Earnings, and Additional Capital

	For the Years Ended March 31	
	1974	**1973**
INCOME		
Net Sales	$ 78,403,000	$ 63,695,000
Cost of Sales	53,428,000	40,640,000
Gross Profit	$ 24,975,000	$ 23,055,000
Selling, General and Administrative Expenses	21,425,000	18,733,000
Income from Operations	$ 3,550,000	$ 4,322,000
Other Income (Expense), net	(688,000)	150,000
Income before Income Taxes	$ 2,862,000	$ 4,472,000
Provision for Income Taxes:		
Federal	$ 977,000	$ 1,845,000
Canadian	294,000	220,000
State	216,000	247,000
	$ 1,487,000	$ 2,312,000
Net Income	$ 1,375,000	$ 2,160,000
Net Income per Common Share (Note 4):		
Based on Weighted Average Shares Outstanding	$ .89	$ 1.45
Assuming Full Dilution	.89	1.42

	1974	1973
RETAINED EARNINGS		
Balance, Beginning of Year	$ 28,442,000	$ 27,348,000
Add: Net Income for the Year	1,375,000	2,160,000
	$ 29,817,000	$ 29,508,000
Deduct: Cash Dividends—		
Common Stock (70¢ per share in 1974 and 1973)	$ 1,046,000	$ 1,021,000
Preferred Stock ($3 per share in 1974 and 1973)	45,000	45,000
	$ 1,091,000	$ 1,066,000
Balance, End of Year	$ 28,726,000	$ 28,442,000

	1974	1973
ADDITIONAL CAPITAL		
Balance, Beginning of Year	$ 502,000	$ 528,000
Add (Deduct):		
Excess of Proceeds Over Cost of Common Stock sold under Employee Stock Purchase Plan (68,932 shares in 1974 and 3,333 shares in 1973) (Note 3)	338,000	8,000
Excess of Cost over Proceeds of Treasury Common Stock issued for Stock Options Exercised (7,992 Shares in 1973) (Note 3)	—	(34,000)
Balance, End of Year	$ 840,000	$ 502,000

The accompanying summary of accounting practices and notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

	For the Years Ended March 31 1974	1973
FUNDS PROVIDED		
Net Income	$ 1,375,000	$ 2,160,000
Expense Not Requiring Outlay of Working Capital in Current Year—Depreciation	1,004,000	630,000
Working Capital Provided from Operations for the Year	$ 2,379,000	$ 2,790,000
Proceeds from Term Bank Loan (Note 2)	10,600,000	—
Issuance of Common Stock Under Stock Purchase Plan (Note 3)	683,000	70,000
Proceeds Received from Exercise of Stock Options (Note 3)	—	115,000
Total Funds Provided	$ 13,662,000	$ 2,975,000
FUNDS APPLIED		
Acquisition of Businesses, less Working Capital Acquired of $2,417,000 (Note 1)	$ 7,471,000	$ —
Additions to Property and Equipment, net	2,344,000	1,688,000
Cash Dividends Declared	1,091,000	1,066,000
Common Stock Acquired for Treasury (3,000 Shares)	37,000	—
Net Increase in Other Assets	193,000	55,000
Total Funds Applied	$ 11,136,000	$ 2,809,000
Net Increase in Working Capital	$ 2,526,000	$ 166,000
NET INCREASE IN WORKING CAPITAL ACCOUNTED FOR AS FOLLOWS —		
Increase (Decrease) in Current Assets:		
Cash	$ 654,000	$ (322,000)
Marketable Securities	(1,103,000)	(5,119,000)
Receivables	6,405,000	2,860,000
Inventories	5,974,000	2,557,000
(Increase) Decrease in Current Liabilities:		
Bank Loans	(3,200,000)	—
Accounts Payable	(3,440,000)	(831,000)
Accrued Liabilities	(925,000)	(182,000)
Federal and Canadian Income Taxes	(1,839,000)	1,203,000
Net Increase in Working Capital	$ 2,526,000	$ 166,000

The accompanying summary of accounting practices and notes to consolidated financial statements are an integral part of these statements.

Summary of Accounting Practices

This summary is presented to assist the reader in evaluating the financial statements and the related notes thereto.

PRINCIPLES OF CONSOLIDATION — The consolidated financial statements include the accounts of the Company and its United States and Canadian subsidiaries, all of which are wholly owned. All intercompany transactions and accounts have been eliminated in the consolidated financial statements.

TRANSLATION OF CANADIAN CURRENCY— Current assets and current liabilities of the Company's Canadian subsidiaries are translated at the rate of exchange in effect at the close of the period; long-term assets are translated at the rates in effect at the dates these assets were acquired. Exchange adjustments, which are not material, are charged or credited to income as incurred.

Revenue and expense accounts are translated at a weighted average of exchange rates which were in effect during the year, except for depreciation and amortization which are translated at the rates of exchange which were in effect when the respective assets were acquired.

INVENTORIES — Inventories are valued at the lower of cost (first-in, first-out basis) or market.

DEPRECIATION — Depreciation is computed using various methods for both financial reporting and tax purposes. Upon sale or retirement of depreciable properties, the related cost and accumulated depreciation are removed from the accounts and any gains or losses are reflected in net income.

Lease commitments are not material to the Company.

LONG-TERM CONTRACTS — Income from long-term contracts is recognized for both financial reporting and tax purposes using the percentage-of-completion method. This practice recognizes income ratably over the period during which the work is being performed on contracts. Receivables in the accompanying Balance Sheets include unbilled revenues on contracts in process ($4,800,000 in 1974 and $4,300,000 in 1973).

PENSION PLANS — Pension costs accrued under several pension plans covering substantially all employees are funded as accrued. Unfunded past service costs are amortized principally over a thirty (30) year period.

NEW PRODUCT DEVELOPMENT AND TOOLING COSTS — Costs relating to certain development projects which are expected to provide a long-term benefit to income have been deferred and will be amortized over periods not to exceed five years; costs related to research and development which are on-going in nature are charged against income currently. Tooling costs related to new products are deferred and are amortized, based substantially on overall production, over a two to three year period.

FEDERAL INCOME TAXES — Federal income taxes are provided on book income without regard to the period when such taxes are payable. Timing differences between book income and taxable income are not material, and the related tax effects are included in Federal and Canadian income taxes in the accompanying financial statements.

No income taxes have been provided for the undistributed earnings of the Canadian subsidiaries as it is the intention of management that such earnings (approximately $3,000,000) will be reinvested indefinitely in the subsidiaries as working capital and property and equipment. Any additional income taxes that would be payable on distribution of such earnings would not be material.

The investment and job development tax credits, which are not material, are accounted for on the "flow-through" method. This practice recognizes the tax benefit in the year in which the qualified assets are placed into service.

Notes to Consolidated Financial Statements

(1) ACQUISITIONS

As of October 1, 1973, the Company acquired for $8,300,000 in cash the American and Canadian manufacturing facilities and inventories of the Fiat units of American Cyanamid Company. Fiat manufactures and sells bathroom and laundry room fixtures for residential and commercial markets.

Effective October 3, 1973, the Company acquired the Denver manufacturing facility and inventories of Dahlstrom Corporation for $1,600,000 in cash. The facility engages in general metal fabricating including fabrication of cabinets for the electronics industry and a variety of other markets. Results of operations have not been material to the Company.

The above acquisitions were accounted for as purchases and, accordingly, the results of operations have been included in the accompanying financial statements since the dates of acquisition.

The Company has not been able to obtain audited financial data for the Fiat operations for periods prior to the date of acquisition and does not believe that such results of operations, prepared on the basis of a combination of allocation techniques and direct charges for internal reporting purposes only, are necessarily indicative of future results of operations. However, for the period subsequent to date of acquisition, net sales of $7,049,000 and earnings, before income taxes, interest and other corporate allocations, of $449,000 are included in the accompanying consolidated income statement; earnings after interest and other corporate allocations resulted in an insignificant loss.

(2) BANK LOANS

(a) The Company entered into a term bank loan agreement dated October 1, 1973, for $10,600,000 with interest at the prime rate to September 30, 1975; prime rate plus ¼% to September 30, 1977; prime rate plus ½% to September 30, 1982, and prime rate plus ¾% to maturity. The loan is due in 24 quarterly principal installments of $350,000 commencing October 1, 1976, and four quarterly installments of $550,000 commencing October 1, 1982. Interest is payable quarterly.

The terms of the loan agreement, as amended, require that the Company, among other things, (1) maintain minimum consolidated working capital of $20,000,000 and a working capital ratio of not less than 2.5 to 1 (actually 2.9 to 1 at March 31, 1974), (2) be free from all short-term unsecured indebtedness for thirty (30) consecutive days on an annual basis, (3) maintain a net worth of not less than $27,000,000 and (4) restrict payments for cash dividends and acquisitions of corporation stock to a maximum of $2,500,000 plus 50% of cumulative consolidated net income earned after April 1, 1973. At March 31, 1974, $2,059,000 was available for dividends and acquisition of stock.

(b) Current bank loans at March 31, 1974, consist of —

Line of credit (average of 9.15% at March 31, 1974)*	$2,000,000
Subsidiary demand note with interest fluctuating at bank prime rate (10.5% at March 31, 1974), guaranteed by parent company	1,200,000
	$3,200,000

*Borrowings under the line of credit (maximum of $2,000,000) are due after 90 days with interest at the prime rate. The weighted average of short term borrowing for the year ended March 31, 1974, was $469,000 at a weighted average interest rate of 9.4%.

(c) Under informal arrangements, the Company is required to maintain compensating balances equivalent to (1) 15% of the average outstanding balance of the term bank loan and (2) 10% of the unused line of credit plus 10% of the average outstanding balance thereunder.

(d) Subsequent to March 31, 1974, the Company has obtained an additional $3,000,000 of financing under short term notes payable to banks. Interest on these notes accrues at the prime rate.

(3) CAPITAL STOCK

As of March 31, 1974, the Company had shares of Common Stock reserved for the following purposes:

Stock Option Plans	63,253
Stock Purchase Plan	1,976
Conversion of Series "A" Preferred Stock	25,000
	90,229

The Board of Directors, subject to shareholders' approval, has authorized an additional

380,000 shares to be reserved for issuance under the employee stock purchase plan.

As of March 31, 1974, options for 20,800 common shares were outstanding at prices ranging from $11.75 to $31.79 per share. During Fiscal 1974 options for (a) 3,000 shares at $11.75 per share and 2,000 shares at $12.50 per share were granted; (b) 30,039 shares were cancelled and (c) no shares were exercised under the stock option plans. Under terms of the plans, options may be granted to officers and key employees at prices equal to 100% of the market value of the common stock at the date of grant.

Under the terms of an employee stock purchase plan, common shares are issued at the lower of 90% of the market value when the options are granted or 90% of the market value when the options are exercised. Options are exercisable two years after the date of grant based on employee payroll deductions during the two year period. During Fiscal 1974, 68,932 common shares were issued at a price of $9.90 per share. Additional shares are issuable on October 1, 1974 and 1975 at maximum prices of $20.92 and $9.90 per share, respectively. Based on the market price at March 31, 1974, and subject to shareholder approval for additional shares to be reserved under the plan, approximately 9,000 and 87,000 shares would be issued October 1, 1974 and 1975, respectively.

The 15,000 shares of Series A preferred stock are convertible into 25,000 shares of common stock, subject to adjustment in certain events. This preferred stock is callable by the Company after January 31, 1976, and has a liquidating value of $50.00 per share ($750,000 in the aggregate). Dividends are cumulative at $3.00 per share per annum.

An additional 735,000 preferred shares with no par value are authorized but unissued. Terms of the unissued preferred stock are to be fixed by the Board of Directors at the time of issuance.

(4) NET INCOME PER COMMON SHARE

Net income per common share based on the weighted average number of common shares outstanding during each year is computed after giving effect to dividend requirements on the Series A convertible preferred stock. Under the Company's stock option and employees stock purchase plans, the net shares issuable (computed by application of the "Treasury stock" method) would be less than 3% of the average common shares outstanding during each of the two years; therefore, net income per common share has not been reduced for the effect of the assumed dilution.

Fully diluted net income per common share assumes conversion of the Company's Series "A" convertible preferred stock and, where appropriate, issuance of stock under the stock option and employee stock purchase plans referred to above.

(5) RETIREMENT PLANS

Total expense, including contributions to the Company's deferred profit sharing plan, pension plans, and union welfare funds, was approximately $1,300,000 in 1974 and $1,300,000 in 1973. The assets of the pension plans exceeded the actuarially computed value of vested benefits at the latest valuation dates. As of March 31, 1974, unfunded prior service costs were approximately $760,000.

Auditors' Report

TO THE SHAREHOLDERS AND DIRECTORS,
POWERS REGULATOR COMPANY:

We have examined the consolidated balance sheets of POWERS REGULATOR COMPANY (a Delaware Corporation) AND SUBSIDIARIES as of March 31, 1974, and 1973, and the consolidated statements of income, retained earnings, additional capital, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

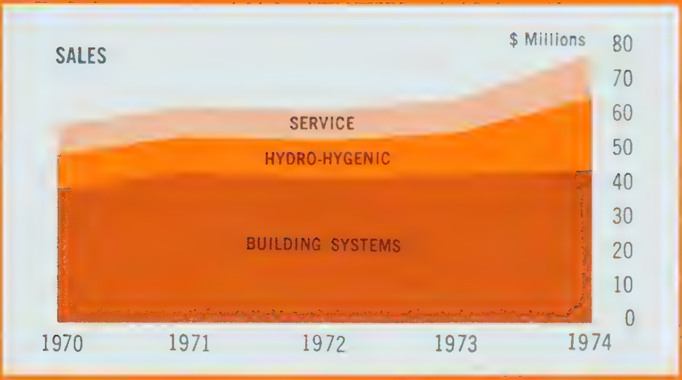
In our opinion, the accompanying financial statements present fairly the financial position of Powers Regulator Company and Subsidiaries as of March 31, 1974, and 1973, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

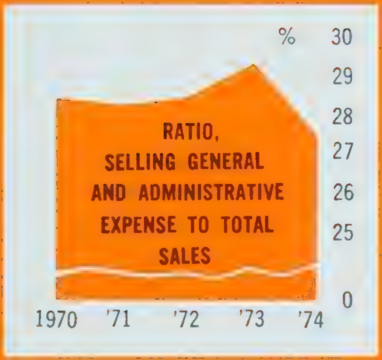
ARTHUR ANDERSEN & CO.

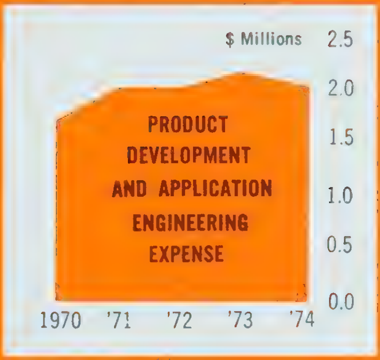
Chicago, Illinois,
June 18, 1974.

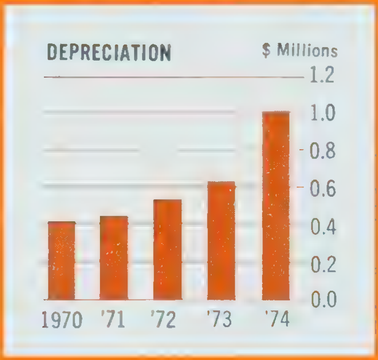
Five Year Profile

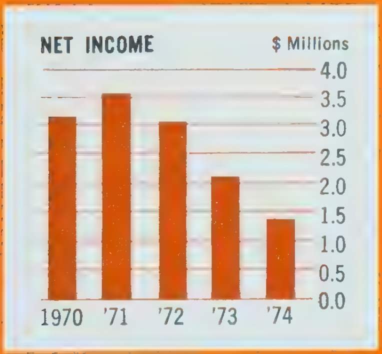
(FISCAL YEARS)

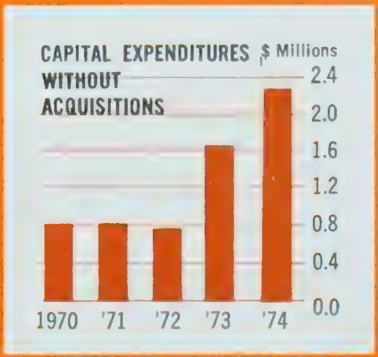












Five-Year Financial Summary

FOR THE YEARS ENDED MARCH 3

OPERATING RESULTS:	
Net Sales	
Cost of Sales	
Gross Profit	
Selling, General and Administrative Expenses	
Income before Income Taxes	
Federal, Canadian and State Income Taxes	
Net Income	
ASSETS:	
Current Assets	
Property and Equipment, net	
Other Assets	
Total Assets	
LIABILITIES:	
Current Liabilities	
Term Bank Loan	
SHAREHOLDERS' EQUITY:	
Preferred Stock	
Common Stock and Additional Capital (Note 3)	
Retained Earnings (Note 3)	
Less: Cost of Treasury Common Stock	
Total Shareholders' Equity	
Total Liabilities and Shareholders' Equity	
OTHER STATISTICS:	
Working Capital	
Ratio of Current Assets to Current Liabilities	
Expenditures for Property and Equipment (Note 2)	
Depreciation	
Net Income Per Common Share (Note 1)	
Dividends Per Common Share	
Shareholders' Equity Per Common Share	
Shares Outstanding at End of Year	

NOTES:

(1) Based on average number of common shares outstanding during each fiscal year.

(2) 1971 includes $736,000 in connection with acquisition of the Garvin Corp. 1974 includes $7,471,000 in connection with Fiat and Powers Metal Products acquisitions.

(3) In 1972, $2,680,000 was reclassified from retained earnings to common stock in connection with the three-for-two common stock split up.

1974	1973	1972	1971	1970
$ 78,403,000	$ 63,695,000	$ 60,837,000	$ 61,074,000	$ 56,599,000
53,428,000	40,640,000	37,350,000	36,701,000	33,549,000
$ 24,975,000	$ 23,055,000	$ 23,487,000	$ 24,373,000	$ 23,050,000
22,113,000	18,583,000	17,157,000	17,057,000	16,080,000
$ 2,862,000	$ 4,472,000	$ 6,330,000	$ 7,316,000	$ 6,970,000
1,487,000	2,312,000	3,278,000	3,715,000	3,744,000
$ 1,375,000	$ 2,160,000	$ 3,052,000	$ 3,601,000	$ 3,226,000
$ 42,407,000	$ 30,477,000	$ 30,501,000	$ 29,633,000	$ 26,766,000
17,496,000	8,685,000	7,626,000	7,376,000	6,219,000
1,322,000	1,129,000	1,075,000	984,000	885,000
$ 61,225,000	$ 40,291,000	$ 39,202,000	$ 37,993,000	$ 33,870,000
$ 14,683,000	$ 5,279,000	$ 5,469,000	$ 5,974,000	$ 5,582,000
$ 10,600,000	$ —	$ —	$ —	$ —
$ 750,000	$ 750,000	$ 750,000	$ 750,000	$ —
9,226,000	8,543,000	8,569,000	5,679,000	5,686,000
28,726,000	28,442,000	27,348,000	28,025,000	25,199,000
(2,760,000)	(2,723,000)	(2,934,000)	(2,435,000)	(2,597,000)
$ 35,942,000	$ 35,012,000	$ 33,733,000	$ 32,019,000	$ 28,288,000
$ 61,225,000	$ 40,291,000	$ 39,202,000	$ 37,993,000	$ 33,870,000
$ 27,724,000	$ 25,198,000	$ 25,032,000	$ 23,659,000	$ 21,184,000
2.9 to 1	5.8 to 1	5.6 to 1	5.0 to 1	4.8 to 1
$ 9,815,000	$ 1,688,000	$ 797,000	$ 1,600,000	$ 826,000
$ 1,004,000	$ 630,000	$ 547,000	$ 443,000	$ 404,000
$ .89	$ 1.45	$ 2.09	$ 2.50	$ 2.29
$ .70	$ .70	$ .70	$ .53	$ .53
$ 23.03	$ 23.43	$ 22.73	$ 21.72	$ 19.79
1,528,189	1,462,257	1,450,932	1,439,884	1,429,328

Directors and Officers

DIRECTORS

R. C. Becherer
Retired Member, Board of Directors, FMC Corporation

M. S. Ganskow
President

H. C. Mueller
Chairman

R. K. O'Hara
Retired Vice President
First National Bank of Chicago

M. E. Prichard
Group Vice President

R. D. Randall
Retired Owner of
D. T. Randall & Company

H. E. Seyfarth
Senior Partner
Seyfarth, Shaw,
Fairweather and Geraldson

J. C. Stetson
President
A. B. Dick Company

J. R. Wilson
Vice President

CORPORATE OFFICERS

H. C. Mueller
Chairman

M. S. Ganskow
President

M. E. Prichard
Group Vice President

J. R. Wilson
Vice President and President
Transitube Division

D. N. Stitt
Vice President and General Manager
Powers—Fiat Division

D. G. Coumbe
Controller and Assistant Secretary

W. F. Blank
Secretary

W. S. Bailey
Assistant Secretary

A. W. Muehl
Assistant Secretary

H. E. Robb, Jr.
Assistant Secretary

DIVISION AND SUBSIDIARY OFFICERS

R. G. Louer
Vice President and General Manager
Control Systems
Field Operation Division

W. L. Norin
Vice President and General Manager
Control Systems
Development Division

M. P. Durrant
President and General Manager
The Powers Regulator Company of Canada, Ltd.
and President
Powers—Fiat Products of Canada Limited

M. M. Garvin
President,
The Garvin Corporation

J. A. Hollingsworth
President
Powers Metal Products Inc.

TRANSFER AGENT

The First National Bank
of Chicago

REGISTRAR

The First National Bank
of Chicago

COUNSEL

Seyfarth, Shaw,
Fairweather and Geraldson

AUDITORS

Arthur Andersen & Co.

COMMON STOCK

Traded Over-the-Counter

GENERAL OFFICES

3400 Oakton Street
Skokie, Illinois 60076

ANNUAL MEETING

The annual meeting will be held July 24, 1974 at the Company's General Offices, Skokie, Illinois

Powers Facilities

POWERS

POWERS REGULATOR COMPANY, SKOKIE, ILLINOIS 60076